

# **POVERTY AND INEQUALITY IN THE AMERICAS: THE UNADDRESSED PROBLEM**

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## **HEARING BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE OF THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS**

**FIRST SESSION**

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MARCH 28, 2007

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## **POVERTY AND INEQUALITY IN THE AMERICAS: THE UNADDRESSED PROBLEM**

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**WEDNESDAY, MARCH 28, 2007**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 3:12 p.m. in room 2172, Rayburn House Office Building, Hon. Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. ENGEL. Good afternoon. A quorum of two being present, this Subcommittee on the Western Hemisphere will come to order, and I am pleased to welcome you to this afternoon's hearing on Poverty and Inequality in the Americas. I would like to start off by reading a quote to you by a United States President regarding poverty in Latin America.

The President said, and I quote:

"Throughout Latin America, a continent rich in resources and in the spiritual and cultural achievements of its people, millions of men and women suffer the daily degradations of hunger and poverty. They lack decent shelter or protection from disease. Their children are deprived of the education or the jobs which are the gateway to a better life."

Now you might think that that quote was President Bush on his recent trip to Latin America but it was actually President John F. Kennedy on March 13, 1961, as he launched the Alliance for Progress. Forty-six years later, just before his trip to the region, President Bush proclaimed that "the working poor of Latin America need change, and the United States of America is committed to that change."

It is time for us to stop talking about poverty and to start taking concrete actions to improve the lives of the impoverished masses in our own backyard. Latin America continues to have a high level of income inequality than any other region of the world. In 2005, almost 40 percent of the region's population, 209 million people, were living in poverty. While Chile and Uruguay have made significant strides in reducing poverty, there are still a number of countries where over half of the population lives in poverty.

Nearly three-quarters of Hondurans live in poverty as do over 60 percent of Bolivians and Paraguayans. Just 600 miles off the coast of Florida in Haiti, an estimated 78 percent of the population lives on less than \$2 per day. While Latin America is on track to meet a number of the U.N. Millennium Development Goals or MDGs, it

lags behind in reaching the goal of halving the 1990 level of poverty by 2015.

I would be remiss not to mention that poverty in Latin America disproportionately affects Afro-descendants and indigenous people. Take Colombia, for example, some 80 percent of Afro-Colombians live in conditions of extreme poverty, and 74 percent of Afro-Colombians earn less than the minimum wage. Choco, the department with the highest percentage of Afro-Colombians, has the lowest per capita level of government investment in health, education and infrastructure.

The situation is no better for indigenous people in the hemisphere. Across Latin America, indigenous people, particularly women and children, have less access to quality health care than the general population. The average infant mortality rate among indigenous children is 60 percent higher than among non-indigenous populations. Indigenous children also exhibit high levels of malnutrition and stunted growth.

During President Bush's recent trip to Latin America, he recommitted the United States to work hand-in-hand with our neighbors in addressing the social agenda. Prior to his trip to the region, the President said that the United States goal for the Americas is one, and I quote him: "Where opportunity reaches into every village and every home." I truly commend the President for making this commitment but we must also put our money where our mouth is.

As I have said before at subcommittee hearings, I am seriously concerned about reductions in assistance to the Western Hemisphere in the President's 2008 budget including a \$70 million reduction in development assistance and a \$36 million reduction in funding for child survival and health programs. These cuts certainly are no way to ensure that "opportunity reaches into every village and every home."

I hope that we can use today's hearing to think creatively about how we can reduce poverty and inequality in the hemisphere. In the 109th Congress, my predecessor then subcommittee Ranking Member Bob Menendez introduced a Social Investment and Economic Development Fund for the Americas Act intended to reduce poverty and creative economic opportunity in the Western Hemisphere. I and members of the subcommittee plan to work closely with now Senator Menendez in bringing back this legislation.

But aid alone is not enough. We must also look to find opportunities for free and fair trade with our neighbors. As we pursue trade policies, we should incorporate social responsibility into agreements so that big business treats their employees and the environment with respect. We must also look to quickly extend preference arrangements like the Andean Trade Promotion and Drug Eradication Act, which has created hundreds of thousands of jobs in the Andean region and is set to expire in June.

Finally, I think it is important to note that what is driving both legal and illegal immigration to the U.S. is poverty, in particular the need for jobs in countries south of the border. To seriously deal with immigration, the United States can no longer be the job market for Latin America, and that means we must substantively address poverty in the hemisphere.

I would like to close with a quote from an unlikely source, none other than Venezuelan President Hugo Chavez. I knew that would get the ranking member excited. Commenting on President Bush's recent trip to the Americas, Chavez said of the President: "He thinks he is Columbus, discovering poverty after 7 years in power." Chavez meant it as a criticism but I think he really gave President Bush a backhanded compliment.

As I see it, the United States is finally moving beyond the two issues, trade and drugs, which have dominated our policy. We are finally seeing that an agenda to lift the impoverished left behind in Latin America is just as important, and that is an important step forward. This subcommittee is ready to work closely with the administration in finding innovative ways to reduce poverty in Latin America.

[The prepared statement of Mr. Engel follows:]

**PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE**

I am pleased to welcome you to this afternoon's hearing on poverty and inequality in the Americas. I would like to start off by reading a quote to you by a U.S. President regarding poverty in Latin America. The President said, "Throughout Latin America—a continent rich in resources and in the spiritual and cultural achievements of its people—millions of men and women suffer the daily degradations of hunger and poverty. They lack decent shelter or protection from disease. Their children are deprived of the education or the jobs which are the gateway to a better life."

You might think that this was President Bush on his recent trip to Latin America. But it was actually President John F. Kennedy on March 13, 1961 as he launched the Alliance for Progress. 46 years later—just before his trip to the region—President Bush proclaimed that "the working poor of Latin America need change, and the United States of America is committed to that change."

It is time for us to stop talking about poverty and to start taking concrete actions to improve the lives of the impoverished masses in our own neighborhood.

Latin America continues to have a higher level of income inequality than any other region in the world. In 2005, almost 40% of the region's population—209 million people—were living in poverty. While Chile and Uruguay have made significant strides in reducing poverty, there are still a number of countries where over half of the population lives in poverty. Nearly three-quarters of Hondurans live in poverty as do over 60% of Bolivians and Paraguayans. Just 600 miles off the coast of Florida in Haiti, an estimated 78% of the population lives on less than \$2 a day.

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I now would like to introduce our distinguished witnesses. Nancy Birdsall is the founding president of the Center for Global Development and a former executive vice president at the Inter-American Development Bank. Joy Olson is the executive director of the Washington Office on Latin America (WOLA) and previously served as Director of the Latin America Working Group (LAWG). And finally, Ben Powell is the co-founder and managing partner of Agora Partnerships, a US non-profit dedicated to helping entrepreneurs create jobs in Central America.

Thank you very much. I am now pleased to call on Ranking Member Burton for his opening statement.

**Mr. ENGEL.** I now would like to introduce our distinguished witnesses, and I ask them to come to the desk. Nancy Birdsall is the founding president of the Center for Global Development and a former executive vice president at the Inter-American Development Bank. Joy Olson is the executive director of the Washington Office on Latin America, and previously served as director of the Latin America Working Group, and finally Ben Powell is the co-founder and managing partner of Agora Partnerships, a United States non-profit dedicated to helping entrepreneurs create jobs in Central America.

One small housekeeping note. We would like to move the hearing along to finish promptly at 4:45 p.m. in time for a members’ meeting with Assistant Secretary Tom Shannon, who will brief us privately on the President’s trip to the region. So thank you very much, and I am now pleased to call on my friend, Ranking Member Burton, for his opening statement.

**Mr. BURTON.** First of all, Mr. Chairman, I cosponsored that bill with you and Senator Menendez before, and if you are going to introduce it, I would like to be your original cosponsor on the Republican side.

**Mr. ENGEL.** Well, thank you. I would be honored to have you.

Mr. BURTON. It is a great, great bill. The reason I held my hand over my head when you started mentioning President Chavez of Venezuela is because I have met with him twice, once in Caracas at his palace and once at the U.N., and he is a very affable individual when you meet him. Very nice. Had a great personality, and he talks about getting along and reconciliation and everything but then you see his actions and hear his speeches, and you just wonder if it is the same fellow.

You know he is a real threat to Central and South America in large part because he is getting about \$2 billion a day in oil revenues. I do not know. Is it \$2 million? Yes, he is getting \$2 million a day in oil revenues, and he has got \$3 billion in reserves or more right now, and he is working with a lot of the leftist leaders down there.

So he is a great concern, and that is why this hearing is so important, Mr. Chairman, because if the United States and the free world, Canada and any country that is very interested in Central and South America, if we do not start taking active steps to show our concern and help eliminate poverty, then those who believe in the leftist approach, the communist approach, are going to fill the gap, and Hugo Chavez has the money, and the wherewithal to do that.

One of the things that I think needs to be done, which you touched upon, Mr. Chairman, and I would like to submit my full statement for the record, one of the things I think the chairman touched upon is we need to get business and industry to invest in Central and South America. The CAFTA, the Central American Free Trade Agreement with the Dominican Republic included was a great step in the right direction, and we need to have a good free trade agreement with other countries in Latin America who want to have free and fair trade with us so we can have American investment and create jobs and help eliminate a lot of the joblessness in the people who are in poverty.

If we do not do that, then people like Chavez who has the money will throw some money into those areas and support the leftist movement, and we will have a real problem. People who are poor and indigenous people like you talked about, Mr. Chairman, they do not care about government philosophy.

They do not care about who is in charge as long as they have got food on the table and clothes on their kids' back, and that is why it is so important that we let them know that we care because that is the most important thing to them, providing for their families, themselves and their loved ones, and that is why I have said to my colleagues on the other side of the aisle—I think you are already with us on a lot of this, Mr. Chairman—that the trade extensions that we have trade preferences with a lot of the Latin American countries until we get a free trade agreement with them, which is very important, and countries like Peru and Colombia and Panama, we need to get those free trade agreements on track as quickly as possible.

The side benefit is not just providing jobs and helping eliminate poverty and creating a good attitude toward the United States which is very beneficial but it also precludes the possibility in large part of a conflict down there like we saw in the early 1980s in

Nicaragua and El Salvador where you had communist movements fighting the governments, and it created a tremendous amount of disenchantment among the populations.

I know that our witnesses are probably going to touch on some of this but if we do not do something about the poverty in Central and South America and if we do not take a proactive stance, I can see revolutions and wars starting in many of these countries down there, and those people that can are going to get out. They are going to come north, just like they did back in the early 1980s out of El Salvador and Nicaragua and the surrounding areas, and when they come north, they are coming to the United States.

We have an immigration problem right now we are trying to deal with. We have different approaches on that. But can you imagine, Mr. Chairman, the gravity of the situation if we had millions of people trying to get the heck out of Central and South America because of civil wars down there and coming to the United States? I would say the problems we face with immigration today will be dwarfed by that, be small.

So Mr. Chairman, I think this is a great hearing. You and I are on the same wavelength, and I congratulate you on having this hearing today.

[The prepared statement of Mr. Burton follows:]

**PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF INDIANA**

Mr. Chairman, thank you for holding this hearing today. So far this year the Western Hemisphere Subcommittee has convened hearings on overall U.S. Policy toward Latin America, Haiti's development needs, and the opinion of the United States in Latin America based on polling data. In each of these hearings, the critical need to deal with Latin America's poverty and inequality has been a recurrent theme. Resolving this problem should, in my opinion, permeate the very core of all efforts of reform in the region, and be a major contributing factor in any future foreign policy strategy.

First, the fact that poverty and inequality exist is not debatable. The World Bank reports that indigenous people comprise 15 percent of the world's poor, and the indigenous population of Latin America is estimated at 28 million. Therefore, there is a very large inherent poverty problem that Latin American countries must address with diligence. The female population is also at a disadvantage with minimal work opportunities and often inadequate laws governing women's rights. Many indigenous women face major health concerns and domestic violence on a regular basis. Each of these disadvantages adds to the social exclusion of women in Latin America.

Second, we must recognize that this rampant poverty and inequality in Latin America is the cause of additional problems in the region. Drug cultivation and use, gang activity and general unrest are often the byproducts of poverty. These evils continue to plague the region and maintain a negative status quo in many Latin American nations, such as a stagnant economy. Persistent poverty is also making it difficult for many in the region to see the value of democracy. As we all know, the constant despair felt by the poverty stricken masses adds fuel to the fire of left-leaning socialist style leaders.

Third, corruption cannot be left out of the equation when looking at a solution to this problem. Since Latin America reportedly has the highest level of income inequality in the world, it is obvious that in addition to poverty there is also extreme wealth in the region. The dilemma lies in the fact that the wealth of nations in our hemisphere is not utilized in a manner that promotes prosperity across all socio-economic classes. If countries are able to sincerely work to fight corruption within their borders, other tools will then become available to open up the region to opportunities for growth.

So finally, we must work to establish long-lasting methods for opening such long term growth opportunities. Passing the previously negotiated Free Trade Agreements and extending Trade Preferences is one obvious place to start. Addressing the millions of dollars of remittances that travel to Latin American countries is another

way to promote efficient use of the funds available to individuals and communities. Increased economic activity in communities will create job opportunities that provide a taxable income, lead to pride in one's community and result in broader educational prospects. It is these fundamental changes that will lift communities out of poverty in the long term.

It is my hope that today's hearing will bring to light concrete proposals for alleviating poverty and reducing inequality in the impoverished areas of the Americas. I would like to thank our highly qualified panelists for being here today, and I look forward to hearing their views of how to promote an environment of change and prosperity in Latin America.

Mr. ENGEL. Thank you, Mr. Burton, and now I would like to give the gentlewoman from California, Ms. Sanchez, a chance to say anything if she has any opening statement.

Ms. SANCHEZ. No.

Mr. ENGEL. Okay. Well, I thank you. Let me then call on our witnesses, and let me say that each witness may I ask you to please keep within the 5-minute limitation, and you could submit a statement for the record, and just summarize. That would be very helpful. So why do we not start with Ms. Birdsall, and we will go right across. You need to push.

**STATEMENT OF NANCY BIRDSALL, PH.D., PRESIDENT, CENTER FOR GLOBAL DEVELOPMENT**

Ms. BIRDSALL. Thank you very much, Chairman Engel. It is a great pleasure to have this opportunity to agree so much with both the chairman and the ranking member. I have submitted written testimony, and I would like to just take my 5 minutes I hope to say something about what the problem is, why it matters to the U.S., and suggest some specific ideas for what we might do.

First, what is the problem? I think it has already been stated in some sense but the way I would put it is why is it that the model we like of democracy and open and free and fair markets is at risk, is under siege in the region? The media have focused on Chavez' alternative model of populous demagoguery but he is just really a symptom of a much deeper problem which goes beyond poverty per se.

It goes back, in my view, to the reforms of the 1990s that were supported by the Washington institutions—the U.S. Government, the U.S. Treasury, certainly the World Bank, the Inter-American Development Bank, and the OAS—and came to be called the Washington Consensus Reforms, privatization, opening of capital markets, sound fiscal policy. These reforms did work. They reduced inflation. They increased investment, and they brought about modest growth.

But they failed on two counts, and that is coming back to haunt us now. The first is that growth was quite modest, and expectations were very high. Growth was nothing like what China and India have achieved, and as a result very few people, if any, escaped poverty. So we still see these high levels that were cited, 200 million people or more.

The second failure is that the benefits of what growth did occur were highly concentrated among a tiny group of people with a lot of education, a group seen in the region as the privileged insider elite. That is the problem. So that has led to resentment and frustration, not just among people we would think of as poor, the 200 million, but among the other 80 or 90 percent of people in the re-

gion who are very poor by U.S. standards. We are looking at a region where 90 percent of the people are living on \$10 a day or less, far from anything we would call a middle class.

So we have in effect the rest of the majority, and that is why we are seeing the popularity of Morales in Bolivia, the near election of Lopez Obrador in Mexico, Umala in Peru, even Kirshner. The only leader that has captured the sense of frustration and been able to deliver in a way that combines fiscal discipline and sound fundamentals on the macro side with a reaching out to the poor in a way is Lula in Brazil, and of course Chile and Uruguay go along all right. But Brazil is important in the region for us.

Okay. So that is my first point. Now why does this matter for the U.S.? It has already been said we benefit tremendously from having good neighbors who are democratic, open economies. That is good for our economy, and I think we need these neighbors if we are to sustain our leadership on geopolitical issues. We need to stay friends with those allies who are like Brazil, like Chile, if we are to take leadership in the world on the big issues, all the way from the war on terror to sex trafficking and so on.

So what should we do? I think the first point I would like to make is about this concept that I call with some co-authors fair growth. We need to send a message which is not just about a sense of charity and handouts for the poor but send a message that the U.S. understands the need for justice and fairness in the region, and the frustrations of a very large majority of the populations there.

In specific terms in our aid effort, we have to recognize we cannot compete on money terms with the billions that Chavez is willing to spend, not just in aid but in selling cheap oil and buying Argentine bonds and so on and so on. We have to think of our aid as being a symbol of what we are as a society, and have it focused on the idea of building a middle class and building accountable government, and the U.S. Government does have the mechanisms to do that.

The ideas in Senator Menendez' proposal are right on in terms of economic opportunity. There is the World Bank. There is the Inter-American Development Bank which is creating a program called opportunities for the majority. We have the Organization of American States which works on democracy and human rights and accountable government. So I think it is just a matter of using the mechanisms we have and talking about it in terms of both meeting the needs of the poor and building a middle class.

On issues like Plan Colombia, it has to go beyond drugs to pushing on land reform, for example, because to build a middle class you need access to credit, you need access to land, you need better schools, you need a fair tax system where the United States could be very helpful, and of course on the trade issue, we really do need to go ahead and imperfect as those agreements are, agree on the Colombia, Peru and Panama deals. Do not let the ideal be the enemy of the good.

We should not pretend that trade all by itself will solve the problem but it would be a rebuke to our allies in the region at this stage to fail to approve those agreements. It would make sense in our aid program to be sure that some resources go to those who

may lose in those countries in the short-term. Just as we have trade adjustment assistance which ought to be a lot bigger in the U.S., we need to be helpful through our aid programs to countries that face the same transition problems.

Some people will lose jobs in the short run, and we need to think much more in general about soft power beyond aid and trade to dealing effectively with the immigration challenge, to dealing effectively with such problems as our high tariff against ethanol, from sugar based ethanol from Brazil to pushing our banks to enter into healthy competition in the use of remittances in many of the countries in Latin America so that poor people have better access to financial intermediation services.

So it is about aid and trade. It is also about soft power, and mostly I think it is about getting beyond handouts to building a middle class. Thank you very much.

[The prepared statement of Ms. Birdsall follows:]

PREPARED STATEMENT OF NANCY BIRDSALL, PH.D., PRESIDENT, CENTER FOR GLOBAL DEVELOPMENT

ATTACKING POVERTY AND INEQUALITY IN LATIN AMERICA: THE U.S. CAN HELP

Mr. Chairman, Members of the Committee: Thank you for the privilege of appearing before this Subcommittee on the Western Hemisphere of the House Foreign Affairs Committee.

For almost 20 years, most countries in Latin America have been implementing market reforms—opening their economies, privatizing their former state enterprises, and addressing their debt and fiscal problems. These so-called Washington Consensus reforms were supported and encouraged by the U.S. and the U.S.-backed IMF, World Bank and Inter-American Development Bank. They have beaten back inflation, increased capital inflows and investment, and contributed to modest growth. But relative to expectations they have failed on two counts. First they have not delivered the kind of hefty growth that is reducing poverty so dramatically in China and India. Though the rate of poverty (defined as number of people living at or below \$2 a day) has fallen slightly (to 40 percent), the number of poor people has been stuck for almost a decade at a shocking 200 million. Second, they have benefited the already rich and well-educated far more than the poor and middle-income majority. It is true that income inequality is increasing not only in Latin America but in China, India and Russia (and of course here in the U.S. as well). But in Latin America, income inequality was already extraordinarily high and visibly unjust (with for example the richest 10 percent of households capturing 50–60 percent of income) to start with.

The result has been deepening resentment—with market reforms, with the political process, and not surprisingly in some countries with the “capitalism” and globalization of which the United States is the dominant symbol. More than 60 percent of those surveyed in most countries are unhappy with the way their democracies are working (a 2006 survey), and more than 90 percent (in 2001) viewed the distribution of income in their country as “unfair” or “very unfair.” In this context, the election or re-election and the growing popularity of candidates representing the “left” broadly defined is not surprising. Some, including Lula in Brazil, Bachelet in Chile and—in Uruguay, represent the maturing of the democratically constituted political party system in the region. But that is not true of others. Chavez in Venezuela is an increasingly despotic populist who is destroying the legislative and judicial institutions that once provided a check on abuse of power. The direction Morales in Bolivia and Correa in Ecuador will take is not clear—Morales is certainly vulnerable to Chavez’s oil-funded largesse and anti-American rhetoric. Like them, Umala who ran for President in Peru, and Lopez Obrador who very nearly won in Mexico were attractive to voters, despite their anti-American and anti-democratic rhetoric, who are fed up with the gap in income, influence, power and privilege between elite haves and majority have-nots.

For the first time in the last two or more decades, and in marked contrast to the situation in the 1990s, there is now a risk that several countries will become more statist and protectionist in their approach to economic policy. Worse with the spread of populist demagoguery there is the risk that the region’s democracies will founder.

And Chavez's willingness to use his oil spoils to buy new strategic allies in (and outside the region) is a larger problem for the U.S. Though it would be wrong to exaggerate his appeal in the region, he is clever and oil makes him rich, at least for now. His anti-American campaign raises the risk that unless the U.S. responds, some of its key allies in the region will see their domestic political position deteriorate, and the U.S. could lose their support on geostrategic issues and in the global battles against terror, drug trafficking, money laundering and other illicit activities. U.S. investors and exporters could also lose out, if more leaders try to satisfy voters with renationalization of industries and trade protection. The basic problem is that his "model" of a more socialist system with more emphasis on the needs of the poor, for all its fundamental flaws, falls on grounds made fertile by voters' growing awareness that their existing social and economic systems are fundamentally unfair.<sup>1</sup>

What can and should the United States do about this situation?

#### *Support "fair growth"*

The reform agenda associated with Washington—the IMF, the World Bank, the Inter-American Development Bank, and the U.S. Government—has not been wrong, but rather incomplete. Its focus on stability and competitive efficiency rather than jobs and economic opportunities left out the poor and the near-poor middle-income majority—the 80 percent or more of people living at or below \$10 a day.<sup>2</sup> To address their needs, the U.S. should encourage its friends and allies in the region to focus on what I and my co-authors of a forthcoming book on economic policies in Latin America call "fair growth."<sup>3</sup>

Fair growth policies are pro-growth and pro-fairness—built on a "growth" foundation of sound fiscal and monetary policy and open markets, but also a "fairness" foundation of financial, social, tax and regulatory reforms that eliminate insider privileges and corruption and give Latin America's non-elite "silent majority" economic opportunities they have never really had. This is not just about charity for the poor—the theme President Bush sounded on his recent trip. It is also about challenging current economic policies and practices that add up to a lack of opportunities for working class and middle-income people. It is in large part about creating good jobs and providing good education so more people can create and take good jobs. As many of you know, in much of Latin America, small businesses cannot easily borrow (to expand which would create more jobs) because the laws and courts prevent legitimate creditors from seizing collateral. The children of urban workers, especially if they are members of ethnic and racial minority groups, cannot get a good education because public spending is low due to tax systems that are depressingly complex and encourage evasion. Secondary school graduates cannot get a good job because onerous labor laws drive businesses to prefer investing in equipment rather than new hiring. And middle-income households cannot get a mortgage because banks make more money lending to governments (so President Bush's announcement of support for housing finance was good).

Our fair growth agenda includes elements associated in the U.S. with the political right and the political left: such policies as hewing to fiscal discipline (to drive down interest rates and encourage job creation and small business investment); charging public university students from affluent households higher tuition; eliminating tax loopholes and attacking the tax evasion that keeps average effective tax rates of the wealthiest families as low as 10 percent; facing up to racial and ethnic discrimination; replacing labor laws that make layoffs so costly that hiring is avoided altogether with an adequate system of social insurance that is portable from one job to another; guaranteeing rights of association and collective bargaining while eliminating regulatory minutiae that burden businesses. In effect it consists of a legal, regulatory and tax and expenditure environment that looks like what we have built in the U.S.—flawed of course in many of its details and in its implementation, but fundamentally meant to be fair in its democratic foundations—because it represents the collective will of the people.

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<sup>1</sup> Shifter, Michael. "Hugo Chavez: A Test for U.S. Policy." A Special Report of the Inter-American Dialogue, March 2007 (<http://www.thedialogue.org/publications/2007/spring/chavez-emb.pdf>).

<sup>2</sup> On the low income of the middle-income majority, see Birdsall, Nancy and Rachel Menezes, "Toward a New Social Contract in Latin America," Center for Global Development Policy Brief, 2004 (<http://www.cgdev.org/content/publications/detail/2837/>). See also Birdsall, Nancy, "From Social Policy to an Open-Economy Social Contract in Latin America," Center for Global Development Working Paper 21, 2002 (<http://www.cgdev.org/content/publications/detail/2769/>)

<sup>3</sup> Birdsall, Nancy, Augusto de la Torre and Rachel Menezes. *Fair Growth: Economic Policies for Latin America's Poor and Middle-Income Majority*. Forthcoming (visit [www.cgdev.org](http://www.cgdev.org)). Washington D.C. The Brookings Institution for the Center for Global Development and Inter-American Dialogue.

Explicit support by the U.S. for growth that is “fair” is also about signaling to the people of Latin America that we are not just interested in our own prosperity, but in theirs—and in a kind of prosperity in their societies that extends well beyond their business, trade and financial elites with which the U.S. government is still seen as primarily allied.

#### *Some specifics*

The U.S. has money—but not nearly enough to leave trade and immigration policy and soft power aside. Still I start with money for aid programs because aid may be the politically easiest tool to deploy.

*Aid: Target U.S. foreign aid on new opportunities for the majority.* The fair growth agenda has to be driven primarily by the businesses, civil societies and democratically elected governments of Latin America. But the U.S. can help with programs of aid that visibly create and increase opportunities for the poor and middle-income majority. The legislation being sponsored by Senator Menendez makes sense—to support a special facility at the Inter-American Development Bank (IDB) focused on improving economic opportunities and at USAID on support of health and education services. The IDB has launched a program called Opportunities for the Majority; U.S. support of a special facility there would give it a substantial boost. Resources needed to help governments beef up tax administration; design and introduce loan and scholarship programs to accompany tuition increases at universities; include systematic evaluation of targeted cash transfer programs that encourage families to immunize their children and keep them in school (Oportunidades in Mexico; Bolsa Familia in Brazil); catalyze creation of credit bureaus, and so on, are not huge. But small amounts outside the political competition for tight budgets do enable governments to take initiatives that are otherwise hard to initiate.

The amount of any new aid is probably less important than the vehicle new money can provide for aggressive support of justice and fairness. Even a doubling of current aid to the region (of about \$1.5 billion) would pale in comparison to the many billions Chavez is spending—to buy Argentine bonds, provide cheap oil to Bolivia, build infrastructure in Central America—and for that matter the \$100 billion or more the governments in the region spend themselves on health and education programs alone. (The original members of the European Union spent more than \$20 billion a year on transfers to Spain from 1986 to recently, and are planning to spend similar amounts in Poland in the next five years.) On the other hand, Latin Americans look to the United States as a land of opportunity and mobility, where a strong middle class demands accountable and honest, competent government (even if they are unhappy with our intervention in Iraq and narrow emphasis in their region on the drug war). Aid explicitly designed to create new economic opportunities and upward mobility for more of the region’s people would be visible and smart.

*Aid: Plan Colombia: How about 60 acres and a plow?* The balance between military aid and fighting drugs in this large U.S. aid program needs to change. President Uribe deserves continued U.S. support; he has not tried to hide embarrassing facts about his appointees but has stayed focused on transparency and institution-building. However U.S. aid ought to be aimed at demonstrating to Colombian citizens an interest in building a more just as well as a more productive rural economy. That is best done by increasing support for social services, rural development, and alternative employment. Congress should urge that U.S. resources be used to implement a serious program of land reform that provides public support for resettlement of displaced populations.

*Trade: Go ahead with the imperfect FTAs.* The Democratic majority should find its way to ratifying the free trade agreements negotiated with Colombia and Peru. The Congress should provide financial support (e.g. \$100 million) to monitor abuse and strengthen enforcement of countries’ own labor standards, since the main problem in those countries is not unwilling governments but lack of enforcement capacity. These agreements, by locking in what has been preferred access to U.S. markets, are likely to create more jobs, especially for unskilled and semi-skilled workers—the have-nots. It is also the case that rejection of these negotiated agreements would not be seen in Latin America as a sign of support for labor or other rights in the region, but as a sign of a resurgence of protectionist sentiment in U.S. politics, and lack of support for the moderate, democratic governments that are fundamentally our allies.

*Trade: Reinstate discussion of an FTAA.* The U.S. should work with Brazil to reinstate discussion of a Free Trade Area of the Americas—which has been set aside awaiting agreement between the U.S. and Europe on agriculture.

*Soft power: Ethanol, energy, the Farm Bill, etc.* A Farm Bill consistent with the U.S. taking leadership on opening rich country agricultural markets would be seen in Latin America as friendly to fair growth. A reduction of elimination of the import

tax on ethanol would be a good way to jumpstart discussions with Brazil on the FTAA. Any legislation that encouraged conservation of oil would bring down its global price and do more to combat Chavez' influence than any other conceivable step, as well as supporting democrats in Ecuador (and Iran).

*Soft power: an immigration bill.* Failure to complete balanced legislation including an arrangement for temporary worker immigration and legalization will strain relations with Mexico, will possibly undermine the still-fragile standing of President Calderon there, and will be resented throughout Latin America as a sign of growing U.S. insularity and preevishness. There are practical proposals for ensuring that temporary migrants have positive incentives to return home and that the governments of Mexico and other sending countries have incentives to take responsibility for their return.<sup>4</sup>

*Soft power: Remittances.* Congress should ask the U.S. Treasury to work with U.S. banks to reduce further the cost of remittance transfers and to develop savings, lending and other banking products targeted to remittance-receiving households, particularly in rural areas (especially in Mexico, where U.S. banks have a large share of the market).

*The IMF, the World Bank and the Inter-American Development Bank in Latin America's middle-income countries.* In the last several years there has been considerable discussion about the role of these institutions, where the U.S. has historically had critical leadership and constructive influence, in the middle-income economies of Latin America. With interest spreads low, commodity prices high, and a generally benign external environment, emerging markets and middle-income countries have been building their reserves and borrowing relatively little from the IMF and the multilateral banks. On the other hand, many of these countries are in a double bind—of both high social and high financial debt. They have huge divides in income and well-being—a large social gap—but to retain the confidence of creditors (domestic and foreign) given the burden of servicing that debt, they sustain those high reserves and run large primary fiscal surpluses.<sup>5</sup> Both involve substantial opportunity costs in terms of financial returns and social gains. They are more interested in attracting private capital, deepening their local capital markets, and reducing the overall risks of both sovereign and private borrowing than in direct borrowing (for example for health and education programs and water and sanitation). The U.S. Congress should ask the Treasury to examine closely the unrealized potential for the official international institutions to better serve the emerging needs of Latin America's emerging and middle-income markets, for example in the form of greatly reduced time and transactions costs in countries meeting minimal standards of good government; greater emphasis on guarantees and insurance and other risk-management products; expanded demand-driven technical assistance; and increased emphasis on technical assistance in such areas as social insurance, pension reform, reform of agricultural and other subsidy systems, municipal finance, and debt management—all with the intention of expanding the potential for the countries themselves to spend more and spend more effectively on social programs.

Mr. Chairman, this concludes my statement. I welcome any questions that you and other Members of the Subcommittee may have for me. Thank you.

Mr. ENGEL. Well, thank you very much. Ms. Olson.

#### **STATEMENT OF MS. JOY OLSON, EXECUTIVE DIRECTOR, WASHINGTON OFFICE ON LATIN AMERICA**

Ms. OLSON. Thank you. My name is Joy Olson, and I am the executive director of the Washington Office on Latin America, WOLA, which is a 33-year-old human rights and advocacy organization that works to advance United States policies in Latin America, that promote human rights, democracy and social justice, and I would ask that you include my full statement in the record.

Mr. ENGEL. Without objection so ordered.

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<sup>4</sup>For specific proposals on how a bilaterally agreed system could work, see Lant Pritchett, *Let Their People Come: Breaking the Gridlock on Global Labor Mobility*. Washington, DC: Center for Global Development, 2006 (<http://www.cgdev.org/content/general/detail/10292>).

<sup>5</sup>See Kemal Dervis and Nancy Birdsall, "A Stability and Social Investment Facility for High-Debt Countries." In *Reforming the IMF for the 21st Century*, ed. Edwin M. Truman. Washington, DC: Institute for International Economics, 2006.

Ms. OLSON. Thank you. It is an honor to testify before the committee today on what we believe is the greatest challenge to Latin America, poverty and inequality. You have stated the numbers of people living in poverty in Latin America. It is over half of the population but it is not just poverty that plagues Latin America. The region also has the world's most unequal distribution of wealth.

The richest 10 percent earn 48 percent of the income while the poorest 10 percent earn just 1.6 percent, and the problem has been getting worse in recent years. These disturbing figures are really at the heart of political reality in Latin America. In many ways poverty and inequality drive the politics of the region. If the United States wants to change its currently negative relationship with Latin America, it must change how it relates to the region both in word and deed.

And since you have brought up Chavez, one thing I would say is that Chavez speaks as if he is one of the poor. He identifies with the poor as he talks with them, and he has programs that are oriented toward literacy and basic health care, things that fundamentally touch people's lives, and that is part of his appeal within the region.

Too often we talk about poor rural areas, areas that get little attention from their own governments, as ungoverned spaces, and the poor people who live in them as a security threat to the United States. We need to show these people, the poor people, that they matter to the U.S. and not because they represent a security threat or because they might migrate to the United States but because they are human beings, and even though they are poor and marginalized, their voices are just as important as those of the rich and influential because that is democracy.

I would like to focus my testimony on the rural sector. That is where poverty is concentrated within Latin America. According to the International Fund for Agricultural Development, 62 percent of the region's rural people are poor. In Guatemala, Honduras, Nicaragua, agriculture remains the largest source of employment, engaging close to half of the economically active population.

There are two major reasons for this persistent poverty and inequality. First, economic growth has been insufficient to help the poor out of poverty, and without strong economic growth living standards cannot be raised, and poverty and inequality will continue. Second, there is unequal access to productive resources such as land. Take Guatemala for example. Seventy percent of the population lives in the rural sector with agriculture and forestry accounting for more than 60 percent of land use and providing 50 percent of employment, yet less than 1 percent of landholders hold 75 percent of the finest agricultural land.

There are similar patterns of land ownership throughout Latin America. Agriculture and rural sectors in Latin America have been losers in recent trade agreements. Because NAFTA is the longest standing agreement, Mexico is the best example of the negative impact trade agreements can have on the rural sector. Since 1994, an estimated 1.5 million Mexican peasants and small farmers have lost their livelihoods.

The International Network on Migration and Development found that from 2000 to 2005, 900,000 jobs in the countryside dis-

appeared in Mexico, and Mexican farmers and small producers were unable to compete with the cheap subsidized corn imported from the United States and consequently lost their jobs.

I would like to make a few recommendations as well. The first is this: To reduce poverty and inequality countries need comprehensive—again I would like to focus on the rural area—and so to reduce poverty and inequality, countries need comprehensive, holistic rural development “strategy” and many countries need to deal with the sticky issue of land reform.

Bolivia is one country making such an attempt. It's pursuing a land reform that was put into place by President Sánchez de Lozada. Land that is not serving an economic, social or ecological or social function, or that has been illegally obtained, may be given to indigenous or campesino communities, and land holders are compensated. But Bolivia needs both technical and financial assistance for this land reform to truly succeed.

Second, poor rural communities need health care, education, access to loans for small producers. Unfortunately, the administration has cut development assistance steadily since 2001 and by 26 percent in the last two years and the development assistance accounts that would normally fund these kinds of programs. Congress should increase AID funding for development assistance and child survival, and it should support the Inter-American Foundation which also has a number of programs in rural areas. Congress, we agree, should also support the Menendez social investment fund. We also think that's an important piece of legislation and it focuses attention on these issues of poverty and inequality.

And third, total trade liberalization of the ag sector harms the rural poor: They're the losers. The U.S. should allow for the differential treatment of agricultural products, taking into consideration the impact agreements will have on the rural poor.

In the coming months, we believe that you should vote against the trade agreements on Colombia, Peru and Panama, not just because they lack the labor protections that are needed, but because they're going to have a devastating impact on the rural poor. And finally, in the farm bill, you can reduce U.S. subsidies on commodities.

The more you take into account how U.S. policies impact the poor in Latin America, showing that we're on their side in the struggle for life—the more our relationship with the region is likely to improve.

Thank you.

[The prepared statement of Ms. Olson follows:]

PREPARED STATEMENT OF MS. JOY OLSON, EXECUTIVE DIRECTOR, WASHINGTON OFFICE ON LATIN AMERICA

My name is Joy Olson and I am the Executive Director of WOLA, the Washington Office on Latin America. The Washington Office on Latin America (WOLA) is a 33 year-old human rights and advocacy organization that has worked to advance U.S. policies in Latin America that promote human rights, democracy and social justice.

It is an honor to testify before the committee on such important issues as inequality and poverty in the Americas. WOLA believes that inequality and poverty pose the greatest impediment to the fulfillment of human rights and to the consolidation of democracy in the region. This belief that poverty and inequality are the central problem in the region is now widely held from analysts and activists to bankers and the Organization of American States. Jose Miguel Insulza, Secretary General of the

OAS said on March 12, 2007 that the persistence of inequality and poverty are one of the main challenges “to development, democratic governance and security in the hemisphere.”

According to the Economic Commission for Latin America and the Caribbean, the number of Latin Americans living in poverty reached approximately 290 million as of 2005, of which 81 million were classified as living in extreme poverty. That is to say, over 55 percent of all Latin Americans live in poverty or in extreme poverty. This despite two decades in which most Latin American governments implemented policies oriented toward free trade and economic liberalization, policies that were predicted to generate growth and reduce poverty.

It is not just that poverty itself continues to plague Latin America. Latin America has the world’s most unequal distribution of wealth, where the richest 10 percent earn 48 percent of total income while the poorest 10 percent earn just 1.6 percent. In contrast, the top 10 percent in industrialized countries earn 29.1 percent of total income, while the bottom tenth earns 2.5 percent.<sup>1</sup> Furthermore, income and wealth inequalities across and within countries in Latin America have increased since 1990 in most Latin American countries.<sup>2</sup>

These disturbing figures are at the heart of the political realities of Latin America. They drive the politics of the region.

The Bush Administration now rhetorically recognizes poverty and inequality as central political factors in the region. However, to date, our policy prescriptions have not done enough to address them.

If the U.S. wants to change the dynamic of its relationship with Latin America then it must show that it cares about addressing this problem. Fundamentally, it needs to show that people in the region matter. They matter because they are people and have social and economic rights, not because they present a security threat or because they might migrate to the U.S. They need to know that even though they are poor and marginalized, their voices are just as important as those of the rich and influential.

Herein lies the secret to why Hugo Chavez is popular in many parts of Latin America and why, conversely, President Bush’s trip fizzled.

We can all criticize Chavez but we need to understand what fuels his popularity. A big part of his appeal is that he talks to the poor and oppressed as if he were one of them. He funds programs that change their daily lives, and they feel it. Programs such as literacy, health care and small business loans. The U.S., by comparison has reduced Child and Maternal health care and essential development assistance steadily in since 2001. When the U.S. prioritizes the problem of poverty and inequality in its policies and programs, addressing the poor and unequal as if we are on their side in the struggle for life, our relationship with the region will improve.

With that general comment, I want to focus on poverty and inequality in the rural sector, followed by concrete policy suggestions this Committee should take into consideration. It is important to focus on the rural sector because for most countries, it is where poverty and extreme poverty are concentrated, impacting women and indigenous populations the most. It is increasingly recognized that the rural sector, long abandoned by official development policies, can contribute positively to national well-being, and strong economic growth and development. According to a recent World Bank publication, rural economies have positive effects on the rest of the economy.<sup>3</sup>

Let me quickly share some figures with you in order to demonstrate the severity of the problem in the region.

Poverty is concentrated in the rural sector. According to the International Fund for Agricultural Development, approximately 62 percent of the region’s rural populations are poor. In some countries such as Bolivia, Guatemala, Honduras, Nicaragua and Peru at least 70 percent or more of the rural poor live in poverty. Furthermore, studies show that the total number of rural poor has increased since the 1970s in the majority of countries.<sup>4</sup>

The rural sector has suffered because official development policies have had a pro-urban bias and the rural development schemes that have existed favored the production of monoculture crops for export such as coffee, melons or flowers. Small farmers and agricultural producers have been viewed as outdated, quaint and inefficient compared to more modern enterprises.

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<sup>1</sup> World Bank, *Inequality in Latin America & the Caribbean: Breaking with History*, 2003

<sup>2</sup> Andres Solimano, “Beyond Unequal Development: An Overview,” Policy Research Working Paper, the World Bank, Latin America and Caribbean Region, Mar. 1999.

<sup>3</sup> World Bank. *Beyond the City: The Rural Contribution to Development*, February 2005.

<sup>4</sup> World Bank, *Inequality in Latin America & the Caribbean: Breaking with History*, 2003.

*The Deadly Combination of Low Economic Growth and Asset Inequality in Latin America*

There are two major reasons for the persistent poverty and inequality in the region. The first is that economic growth has been insufficient to help the poor out of poverty. In the last twenty-five years, Latin America experienced its slowest period of economic growth in more than a century. Per capita income grew by 82 percent from 1960 to 1980 (after adjusting for inflation), whereas it grew only by 9 percent from 1980 to 2000, and only by 4 percent in the first five years of this century.<sup>5</sup> Without strong economic growth, living standards cannot be raised, and poverty and inequality cannot be addressed because there are fewer resources to address the magnitude of the problem. As will be seen below, NAFTA has not been the economic tide that lifts all boats, especially for people in the rural sector.

A second significant factor is unequal access to productive resources, such as land. Take Guatemala for example, 70 percent of the population lives in the rural sector with agriculture and forestry accounting for more than 60 percent of the land use and providing for over 50 percent of employment. Yet, less than 1 percent of land-owners hold 75 percent of the finest agricultural land.<sup>6</sup> There are similar patterns of unequal land ownership throughout Latin America that date back to Colonial times. Inequality in productive resources perpetuates and in some cases, worsens poverty in the rural sector. World Bank economists de Janvry and Sadoulet suggest that where land inequality is high, growth in agricultural production and productivity has worsened rural income inequality.<sup>7</sup> Under such conditions people are not needed to increase productivity, so jobs are not created and there is no pressure to increase wages for the rural poor.

Studies have also shown that poverty and inequality retard economic growth and consequently, a vicious cycle ensues. Poor and landless people don't have access to productive resources that could contribute to the economy and to improving their lives. And, low economic growth diminishes the possibility that governments will be able to direct resources to address the problem of poverty and inequality.

*Trade, Agriculture and the Rural Sector*

A third area that must be discussed is the role that U.S. trade agreements have in perpetuating poverty and inequality in the region. The agricultural and rural sectors in Latin America have been losers in trade deals. As a country with the longest-standing trade agreement, Mexico is the best example of the negative impact trade agreements can have on these sectors. NAFTA was sold on the Mexican side as a net generator of employment. More jobs at home would mean less need for migration. Then President Clinton promised that "there will be less illegal immigration because more Mexicans will be able to support their children by staying home."<sup>8</sup> Furthermore, the development gap, it was argued, between the more developed nations in the agreement—Canada and the US—and Mexico would begin to close.

Yet NAFTA has not delivered on its promise. From the time NAFTA went into force until 2001, there was indeed economic growth. Direct foreign investment rose from \$42 billion to \$167 billion and export earning increased from \$11 billion in 1994 to \$21.8 billion in 2001. However, asymmetries did not decrease and reduction in poverty was insignificant. Joseph Stiglitz reported that income disparities between Mexico and the U.S. grew by 10.6 percent in the first decade of the trade agreement and that real wages have been falling at the rate of 0.2 percent a year.<sup>9</sup> Economic growth did not translate into improved living conditions and the promises of NAFTA were not realized. In fact, the opposite has occurred.

Since 1994, an estimated 1.5 million peasants and small farmers have lost their livelihoods. The International Network on Migration and Development found that from 2000 to 2005, 900,000 jobs in the country-side disappeared and 700,000 in the industrial sector.<sup>10</sup> Sandra Polaski, the Director of the Trade, Equity and Development Project at the Carnegie Endowment for International Peace, concurred. She testified before the Senate Subcommittee on International Trade of the Finance Committee that NAFTA has produced a "disappointingly small net gain in jobs in Mexico," in both the agriculture and manufacturing sectors. And, that "Mexican ag-

<sup>5</sup> Mark Weisbrot, "The End of an Era," *International Journal of Health Services*, Vol. 36, No. 4 (2006)

<sup>6</sup> Peter Rosset, et al. *Promised Land: Competing Visions of Agrarian Reform*. (Institute for Food and Development Policy, 2006), 24.

<sup>7</sup> Quoted in Nancy Birdsall et al. "Bootstraps Not Band-Aids: Poverty, Equity and Social Policy," Center for Global Development, (2003), 7.

<sup>8</sup> Jeff Faux, "NAFTA's Failure and the Increasingly Desperate Mexican Economy: What's Bush's Speech on Immigration will Miss," *Counterpunch*, 15 May 2006.

<sup>9</sup> Stiglitz, Joseph, "The Broken Promise of NAFTA," *New York Times*, 6 Jan 2004.

<sup>10</sup> Diego Ayala "NAFTA the Cause of Migration," *Excelsior* 13 Feb 2007.

riculture has been a net loser in trade with the United States,” where more “farmers lost than gained from NAFTA-induced changes.”<sup>11</sup> Mexican farmers and small producers were unable to compete with cheap, subsidized corn imported from the U.S. and consequently lost their employment. Similarly, total manufacturing employment in Mexico declined from 4.1 million in 2000 to 3.5 million in 2004.<sup>12</sup> Loss of employment in both sectors has had a downward pressure on wages, and wages are lower than when NAFTA took effect.<sup>13</sup>

In fact, according to Polaski, inequality in Mexico decreased in the years immediately before NAFTA but increased afterwards. She states that compared to the period before NAFTA, the top 10 percent of households have increased their share of national income, while the other 90 percent have lost income or seen no change.<sup>14</sup>

Agriculture and rural areas are significant economic sectors in many Latin America countries. In Guatemala, Honduras and Nicaragua agriculture remains the largest source of employment, engaging 52.5, 43.9 and 43.2 percent of the economically active population, respectively. In Peru and Colombia, 34 percent and more than 20 percent of the population depend on agriculture for their livelihood.<sup>15</sup> In contrast, only 2 percent of the labor force is employed in the rural sector in the United States. While rural economic activities contribute only 12 percent of the region’s GDP, the World Bank reports that their effect on national growth and poverty reduction is nearly twice as large due to forward linkages to other economic activities.<sup>16</sup> Latin American farmers face unfair competition due to U.S. subsidies that enables U.S. agribusinesses to export goods at prices below production cost.

The lack of employment opportunities or access to productive resources in rural areas is a major push factor for out-migration to cities, neighboring countries and the United States. For example, the undocumented population from Mexico present in the U.S. increased from 2.0 million in 1990 to 5.8 million in 2000 and to 5.2 million in 2002. As of 2002, Mexicans made up 57 percent of the foreign born population in the U.S. and other Latin Americans 23%.<sup>17</sup> Why people migrate is a complex issue and causal factors are difficult to ascertain. However, research suggests that there is a connection between low wages, lack of jobs and outward migration. Economist and trade specialist at Harvard University, Dani Rodrik, argued that a rapid increase in Mexican wages would be the only thing to curtail the flow of people across the border.<sup>18</sup> If you travel in Mexico or Central America, people will tell you that the biggest export they have is their people.

#### *What to Do?*

The reduction of poverty and inequality is an essential policy objective. It is important morally because it is a human rights issue but also because studies have shown that inequality and poverty impact other policy objectives such as strong economic growth, development and the consolidation of democracy.<sup>19</sup> Specifically:

1. In order to contribute to poverty and inequality reduction, Latin American countries need a comprehensive, holistic rural development policy that addresses the sticky issue of land reform. Land reform is a politically sensitive issue and many of you might be skeptical because land reform in Latin America has not worked. But it has not worked for largely three reasons: 1) lack of political will to challenge unjust land-owning structures; 2) relying on models of market-based land reform<sup>20</sup>; and 3) not providing the beneficiaries of land reform the sufficient technical support for the reform and subsequent development to be successful. The U.S. government should support more just attempts at land reform. For example, Bolivia’s Morales government is pur-

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<sup>11</sup> Sandra Polaski, “The Employment Consequences of NAFTA,” Testimony submitted to the Senate Sub-Committee on International Trade of the Committee on Finance, September 11, 2006, pg 12.

<sup>12</sup> Louis Uchitelle, “NAFTA Should have Stopped Illegal Immigration, Right?,” *New York Times*, 18 Feb 2007.

<sup>13</sup> Polaski., pg 1.

<sup>14</sup> Polaski pg 2.

<sup>15</sup> Patricia Amat, Song of the Sirens: Oxfam America Briefing Paper, Jun 2006 at 8. “Field Listing—Labor Force by Occupation,” CIA World Factbook, 19 Dec 2006.

<sup>16</sup> Amat, pg 13.

<sup>17</sup> Jeffrey Passel, “Mexican Immigration to the U.S.: The Latest Estimates,” Migration Information Source, 1 March 2004.

<sup>18</sup> Uchitelle, 2.

<sup>19</sup> Solimano, pg 4,11,28.

<sup>20</sup> Market-led model was implemented largely due to the influence of international financial institutions but studies show that this model has not led to a genuine redistribution of wealth. This is primarily due to the fact that landowners who sell their land are fully compensated whereas campesinos assume a liability (such as a state loan) in order to buy the land.

suing land reform by implementing a revised version of a law originally passed in 1996 during the Gonzalo Sanchez de Losada government. Under the revised law, land that is not already serving an economic, social or ecological function, or that has been identified as having been illegally obtained, may be allocated to indigenous or campesino communities with inadequate or no land. The law also provides economic compensation to landowners. International technical and financial support for Bolivia's land reform could promote more equitable and successful initiatives to improve the economic situation of Bolivia's poor. Providing poor people access to land can have a broad range of social and economic benefits including poverty reduction, economic growth and development, improved governance and empowerment of women and indigenous groups.

2. Support for land reform must be accompanied by the provision of quality social services such as education and health, and broader access to credit by low-income households and small scale producers—programs the U.S. government has traditionally supported. Unfortunately, the Bush Administration has cut development assistance steadily since 2001 and by 26% from FY 2006 to FY 2008. While the Millennium Challenge Account provides significant amounts of money it is only to three countries, or 4% of Latin America's population and is financing large infrastructure programs such as an industrialized corridor in northern El Salvador. Congress should increase AID funding for the Development Assistance and Child Survival accounts. Congress can also support development in the region by approving Senator Menendez's Social Investment Fund, legislation I understand he will introduce soon. This bill will provide the region with \$2.5 billion over 5 years for programs designed to reduce poverty and inequality. In the future, Congress should look for ways to increase funding for comprehensive rural development strategies supporting organizations such as the Inter-American Foundation that have in-depth experience in working with small scale development programs in the region.
3. Last of all, total liberalization of the agricultural sector harms agricultural and rural sectors in Latin America. Given the significance of these sectors culturally and economically, the U.S. government should allow for special and differential treatment for agricultural products in Latin America specific to each country. Trade agreements should also allow governments the autonomy to determine how to effectively use trade to support long-term development goals and impose measures to protect sectors that are negatively impacted. Finally, the agricultural chapters of trade agreements (signed and forthcoming) should be reevaluated or renegotiated in light of their impact on the livelihoods of the people living in the rural sectors. One such opportunity before you is renegotiating the final reduction in January 2008 of tariffs for beans and corn in the NAFTA agreement. You have heard the devastating consequences of market liberalization on Mexico's small farmers and agricultural workers, and can act now to change that. You can vote against the pending trade agreements with Colombia, Peru and Panama—not just because they lack labor rights protections, but because they will also have a devastating affect on farmers and laborers in the rural sector. Finally, in this year's debate on the Farm Bill you can reduce commodity subsidies that distort trade in Latin America and in other developing countries.

The poor in Latin America have waited decades for democracy to change their lives. For far too many it has not. For decades as well, the poor have seen their own national development and trade policies ignore or worsen their plight. The more you make decisions that take into account how U.S. policies impact the poor in Latin America—because they are people who matter—the more our relationship with Latin America will improve.

Thank you.

Mr. ENGEL. Thank you. Mr. Powell.

**STATEMENT OF MR. BEN POWELL, MANAGING PARTNER,  
AGORA PARTNERSHIPS**

Mr. POWELL. Thank you, Chairman. My name is Ben Powell, and I am the co-founder and managing partner of Agora Partnerships, a United States nonprofit dedicated to helping entrepreneurs create

jobs in Central America, specifically in Nicaragua, where we have been operating for nearly 2 years.

My remarks today will focus on the role of entrepreneurship in addressing poverty and inequality in the Americas. I speak from our experience in Nicaragua, but I believe many of the problems entrepreneurs face there exist across the region. With that in mind, there are three major points I would like to discuss with you today that address from a very practical perspective how to help entrepreneurs in poor countries create successful companies.

And there are two main observations based on our experience that I would like to discuss with you today. First, small business entrepreneurs play a key role in reducing poverty and inequality in poor countries. I am talking about entrepreneurs in the formal economy who pay tax, not the very rich nor the very poor. These entrepreneurs create the jobs that help sustain the middle class that values democracy and fights for the education of its children.

Second, these same entrepreneurs encounter almost insurmountable barriers to success. Understanding and vigorously confronting these barriers is critical to attacking poverty. The roots of poverty, as we all know, are very complex but in its essence I think it can be boiled down to this: Poor countries do not generate enough jobs to create wealth.

Nicaragua is the second poorest country in the hemisphere. Nearly half the country is unemployed or underemployed. How can we create jobs in countries like Nicaragua? We believe that the answer lies in unleashing the potential of great entrepreneurs, and these entrepreneurs exist right now today. They are all across Latin America, and I would like to give you three examples of the kind of entrepreneurs that we work with.

Santos Reyes fled to Honduras during the Nicaraguan civil war, taught himself to read by candlelight, and started a business as a shoe shiner. Today he owns a small shoe making company, employing 15 people. A widower with two children, he uses all of his profits to pay for private school for his daughters. Santos wants to make better quality, more profitable shoes. He has the potential to become a role model and employ over 100 people.

Meylin Ortiz and Olga Lumbi process fresh fruit into all natural baby food. They currently sell in small quantities but plan to sell to local orphanages that are not always able to provide a nutritious meal to their children. They have poured all of their savings into their business, and they dream of exporting throughout the region.

Carlos Fernando Solorzano, 24 years old, buys fruits and vegetables from local farmers, cleans, cuts and packages them and sells them to hotels and restaurants. Like Olga and Meylin, Carlos is adding value in his country rather than simply exporting raw materials.

Now these entrepreneurs all have very real potential, in my opinion, to add social and economic value to their communities. By social value I mean jobs, developing products that help the poor and helping to create an entrepreneurial middle class that can become the glue to democratic capitalism. By economic value I mean paying taxes, generating exports or substituting imports, and reducing capital to investors with a profit thereby attracting additional investment.

But these entrepreneurs have something else in common. Despite being on the front lines in the battle against poverty, the odds are stacked against them. Too big for microfinance, too small for the capital markets, they exist in a development blind spot and cannot access the support or financing they need to grow their businesses. The barriers against their success are so strong that most of these entrepreneurs I just mentioned left alone will fail.

So what are these barriers? In general there are four that we look at: Entry, closed social and business networks and a lack of role models prevent many potential entrepreneurs from starting a business; education, a lack of business education and management experience make it hard for entrepreneurs to identify true opportunity; financing, high interest rates and collateral requirements and a virtually nonexistent capital market severely restrict access to long-term financing; and execution, most businesses fail at the level of execution where lack of working capital leaves no margin for error or a sudden downturn.

Add to these barriers cultural attitudes toward risk and failure, weak political institutions, underdeveloped infrastructure and the general absence of trust among members of society, and it is no surprise so few jobs are created in the region. Our own approach at Agora Partnerships is to find promising entrepreneurs, connect them with top level consulting through MBA students who volunteer for free, and then give them access to long-term financing, and then help them execute their business through leadership development and technical assistance.

By opening our network of students and business professionals and putting it in the service of these entrepreneurs, we hope to create a modern day market or Agora where people can come together to fight poverty one business at a time. And more than simply creating jobs, we want to work with our partners to create a vibrant entrepreneurial culture and a functioning investor market where innovation can be nourished, financed and helped to succeed.

As you think about how to allocate U.S. Government resources to help address the topic of this hearing, I would ask you to ask yourself will the policy help the region's emerging entrepreneurs create sustainable businesses? Will it facilitate the right kind of investment in these entrepreneurs and give them the tools and education they need to compete globally? Will it help them innovate and access new markets with value-added products and services? Will it help show that success in business is due to hard work and a good idea and not corruption or power?

These are the questions we should be asking and answering, even if it means taking risks and failing. These are the questions in my mind at the root of poverty and inequality, and the best leaders and entrepreneurs in Latin America are asking these very same questions. I believe we should listen to them and help them find the answers. Thank you.

[The prepared statement of Mr. Powell follows:]

PREPARED STATEMENT OF MR. BEN POWELL, MANAGING PARTNER, AGORA  
PARTNERSHIPS

*Introduction*

My name is Ben Powell and I am the co-founder and Managing Partner of Agora Partnerships, a US non-profit dedicated to helping entrepreneurs create jobs in Cen-

tral America—specifically in Nicaragua, where we have been operating for nearly two years.

I have BA from Haverford College, a Masters in International Affairs from Georgetown University and an MBA from Columbia Business School. I started a successful small business in Puebla, Mexico that helped me understand the importance of entrepreneurship as an effective weapon to reduce poverty and inspired me to co-found Agora.

My co-founder is a Nicaraguan entrepreneur, also educated at Georgetown, who established, among other things, the Nicaraguan Association of Young Entrepreneurs. Together with our staff in Managua, we have worked with 27 start-up businesses in Nicaragua to understand, from a very practical and hands-on perspective, how to help entrepreneurs create successful companies.

#### *Summary of main points*

My remarks today will focus on the role of entrepreneurship in addressing poverty and inequality in the Americas. I speak from our experience in Nicaragua, but I believe many of the problems entrepreneurs face there exist across the region. With that in mind, there are three major points I'd like to discuss with you today.

The first point is that small business entrepreneurs, those with between a few to a hundred employees, play a key role in reducing poverty and creating wealth in poor countries. These entrepreneurs run the businesses that drive broad-based growth and help their countries compete in a globalized world. They create the jobs that help sustain a middle class that values democracy and fights for the education of their children. Understanding how to help the individual, small-scale entrepreneur play a larger role in his or her community is the first step toward fighting poverty and reducing inequality.

The second point is that these same entrepreneurs encounter almost insurmountable barriers to success. Understanding, and more importantly, addressing these economic, cultural, and psychological barriers is critical for entrepreneurship to flourish. This is our mission at Agora Partnerships.

The third point is that we live at a time of unprecedented activity and innovation in the development field. There are many organizations with fresh approaches working to help entrepreneurs overcome the odds. I believe policymakers should strive to understand and support these efforts.

#### *Entrepreneurship and Development*

The roots of poverty are extremely complex. In most cases, however, it can be boiled down to this: poor countries do not generate enough jobs to create wealth. Unequal access to education and healthcare compounds the problem. In Nicaragua, the second poorest country in the hemisphere, nearly half the country is unemployed or underemployed and 70% of its people are under the age of 30. The country has the highest Gini coefficient—a measure of income inequality—in Latin America and needs to generate 60,000 jobs a year just to maintain current employment levels. So how will Nicaragua and countries like it create those jobs and the millions more needed to alleviate poverty?

The success stories of the last 50 years—Taiwan, Singapore, Chile—all have a few things in common. They invested in education. They also supported businesses that leveraged their competitive or comparative advantage. With a more highly educated labor force, they soon created businesses higher and higher on the value chain, capturing increasingly more of the economic value they generated. In short, these countries found a way to unleash the potential of their most powerful natural resource—their people.

Business drives development, but people drive businesses. Let me define exactly the sort of entrepreneur I believe we need to support in very poor countries. It is someone who is passionate about his or her business and who understands the transformative role that business can play in a community. It is someone with the managerial and leadership potential to lead a team, adapt as necessary to the demands of a competitive global marketplace, or provide a needed product to an underserved local market. Most importantly, it is someone who has vision—and the potential and the will to realize that vision. These entrepreneurs exist—they are all across Latin America. They have the power to change their countries. I'll give you three examples.

- Santos Reyes fled to Honduras during the Nicaraguan civil war, taught himself to read by candlelight, and started in business as a shoe shiner. Today he owns a small shoemaking company employing 15 people. A widower with two children, he uses all of his profits to pay for private school for his daughters, one of whom dreams of going to Harvard Medical School. Santos wants

to make better quality, more profitable shoes. He has the potential to employ 100 people and serve as a role model.

- Meylin Ortiz and Olga Lumbi process fresh fruit into all-natural baby food, a product that is not locally produced in Nicaragua. They are currently selling small quantities but want to sell to local orphanages that are not always able to provide a nutritious meal to the children. They have poured all their savings into the business, including money they won in a local business plan competition.
- Carlos Fernando Solórzano, all of 24 years old, takes fruits and vegetables, cleans, cuts, and packages them and sells them to hotels and restaurants. His company buys the vegetables from local women farmers whose families rely on him for their income. If he is successful, he can export throughout all Central America, and maybe even to the US, creating desperately needed jobs in the agricultural sector. Like Olga and Meylin, Carlos is adding value in the country rather than simply exporting raw materials.

These entrepreneurs have two things in common. First, they have the capacity to add social and economic value to their communities. By social value, I mean things like sustainable employment creation, developing products and services that help the poor, and helping to create a desperately needed entrepreneurial middle class. History has shown that such a middle class is the glue of democratic capitalism. By economic value I mean paying taxes, generating exports or substituting imports, and returning capital to investors with a profit, thereby mobilizing additional investment. These entrepreneurs will do more than take the edge off of extreme poverty. They will create wealth.

The second thing these entrepreneurs have in common is that despite being on the front lines in the battle against poverty, there are few resources today to help them. The barriers against their success are so high that most of these entrepreneurs, without the right kind of support and financing, will fail.

#### *Barriers to Entrepreneurship*

Our experience in Nicaragua has convinced us there are four main barriers that prevent new businesses from developing. Understanding them is critical to understanding the problems of poverty and inequality.

1. *Entry.* Closed social and business networks and a lack of role models limit ambition and prevent many potential entrepreneurs from starting a business. Few people have an entrepreneurial mindset. Being unable to imagine success, they don't try.
2. *Education:* A lack of business education and management experience make it hard for entrepreneurs to identify true opportunity or to pitch their idea to potential investors.
3. *Financing:* High interest rates, large collateral requirements and a virtually non-existent capital market severely restrict access to financing for early stage ventures. Despite increased competition and regionalization in the banking sector, the type of long term capital needed to finance growth is largely unavailable to the small scale entrepreneur looking for anywhere between \$20,000 to \$500,000.
4. *Execution.* Most businesses fail at the level of execution. Lack of business support resources and insufficient management experience make it difficult to sustain a new venture. Lack of working capital leaves no margin for management error or a sudden downturn.

Add to these barriers negative cultural attitudes toward risk and failure, weak political institutions, and the general absence of trust among members of society and it is no surprise that so few jobs and new businesses are created in Nicaragua.

#### *New Approaches to Development*

The effect of these barriers is endemic poverty, economic and social inequality, and most discouraging of all, severely limited possibilities for too many people in our hemisphere. The squandering of human potential in the developing world is a huge problem. It should not be tolerated.

So what can be done? Traditional aid has tended to focus on large infrastructure projects or on improving the regulatory and legal enabling environment—two important goals that are also often derailed by lack of political will and corruption, and that have for the most part not helped the poor. Microfinance programs have done an excellent job helping extremely poor entrepreneurs gain self-sufficiency and increasing the societal power of women—and therefore children. But microfinance is usually not appropriate for entrepreneurs operating in the formal economy who

need long term financing to grow. In fact, there are very few dollars that target the small, formal economy entrepreneur. They exist in a development blind spot. Too big for microfinance, too small for the capital markets, these entrepreneurs are already known in development circles as the missing middle. We cannot afford to have these entrepreneurs missing. They need to be helping their countries get out of poverty.

Despite the magnitude of the challenge, we live in a time of extraordinary innovation in the field of development and development finance. Today, there are a number of organizations that work directly to help new businesses succeed in poor countries. These organizations are impatient with the pace of poverty reduction and realize that at times a social problem requires a market solution. Just last month, over 25 organizations met at the Aspen Institute's Wye River Plantation in Maryland to launch the Private Sector in Development Initiative. Investors, foundations, and capacity building organizations like TechnoServe, Acumen Fund, Ashoka, Endeavor and E&Co, as well as many others, are now coming together to work on market-based solutions. I believe many of the solutions to poverty and inequality in the next 10 years will come from the innovation and risk taking among this new generation of organizations and investors. International financial institutions wield enormous resources that should be used to help seed new development models and take successful ones to scale.

#### *The Agora Partnerships Model*

To give you an example of the sort of innovation and risk taking I am talking about, let me tell you Agora Partnerships' strategy to overcome the barriers to entrepreneurship.

First, we address the barrier of entry by going through civil society institutions—universities, local business plan competitions—to find entrepreneurs with vision, integrity, and leadership potential who want to create or expand a socially responsible business.

We then match them with teams of MBA and international affairs graduate students who travel to Nicaragua to consult with them on specific business issues and to educate them about how to attract investment.

For our most promising entrepreneurs, we provide access to long term financing through debt and equity at market rates, with structuring that allows the company to grow rapidly in the first critical years. We want to prove that investing in small entrepreneurs in Nicaragua not only helps alleviate poverty, but is sustainable. Entrepreneurs are our partners in development—they need investment, not charity.

Finally, we provide strategic consulting, leadership development, and other services to entrepreneurs to help them implement their business plan. By opening our network of students and business professionals and putting it in the service of entrepreneurs, we hope to create a modern day market place—or agora—where people from the north and south can come together to help create jobs in areas that desperately need them.

The goal is to dramatically and permanently improve the entrepreneurial climate in Nicaragua and later in other countries where a small amount of support can generate enormous long-term gains. More than simply creating jobs, we want to work with our partners to create a flourishing entrepreneurial culture and a functioning investor market where innovation can be nourished, financed and helped to succeed. This is our approach, but it is only one of many new ways to use markets and businesses to tackle poverty.

#### *Conclusion*

As you think about how to allocate US government resources to help address the topic of this hearing, ask yourself: Will the policy help the region's emerging entrepreneurs create sustainable businesses? Will it facilitate the right kind of investment in these entrepreneurs and give them the tools and education they need to compete globally? Will it help them innovate and access new markets with value-added products and services? Will it help them to show that success in business is due to hard work and a good idea, and not to corruption or power? Will it create powerful role models and success stories that inspire a younger generation of entrepreneurs? Is it scalable and capable of changing an entire system? These are the questions we should be asking and answering—even if it means taking risks and failing. These are the questions that will help make investment in the region successful at reducing poverty and inequality. The best business schools and the best leaders in Latin America are asking these questions. We should listen to them, and help them find the answers.

In our own country we believe in human potential—in giving people access to opportunity so people can realize their dreams. This insight is universal and applies

equally to Latin America. Our point of view is that developing world entrepreneurs must be given the opportunity to realize their potential to become change agents in their communities. They are ready and willing to roll up their sleeves, and they are looking for partners.

Mr. ENGEL. Well, thank you very much. I appreciate the testimony of all three of you. I think all excellent points were made. Let me start with Ms. Birdsall. Your testimony and Ms. Olson's testimony were diametrically opposite in terms of the free trade agreements for the three countries: Peru, Panama and Colombia. You said you thought that if we did not ratify it, it would show neglect on our part, and Ms. Olson said that she was opposed to it because she thought that it would have a negative impact on the rural poor.

Let me ask you, Ms. Birdsall, in your testimony—and I have a quote of what you said—you said: "The U.S. has money but not nearly enough to leave trade and immigration policy and soft power aside." And I do agree with that. And I believe that free trade in the abstract is a beneficial thing or can be a beneficial thing and should be a beneficial thing. But I believe that our current trade agreements need to be changed to strengthen labor and environmental provisions. So I want to ask you: What improvements can be made on the labor and environmental front so that the benefits of trade can reach the middle and lower class in the region?

Ms. BIRDSALL. I think the best way to answer that is to say that, yes, we should approve these FTAs in the context in which we also are paying lots of attention, including through our aid programs, to those who may lose out. I emphasize that in my oral testimony.

Second, on the labor and environmental issues, I have not followed it in the last few days, but my impression from reading the newspapers is that there is hope for an agreement between the majority and minority parties, and my hope is that agreement is pushed through, and that is built on the idea that there could be complimentary legislation, not a delay in approving in the next few days these FTAs which have to be approved in order to meet the deadline for them to go forward, but to think hard about complimentary legislation that handles the problem of the transition for poor people, rural poor in particular, in Latin America, deals with this issue of labor and environmental standards in a way that, yes, strengthens them without coming into conflict with whatever the existing regime is in the United States. I am sure there is a way to do it, and I hope that the Democratic majority can find a way to do it.

Mr. ENGEL. You see many of us insist that these environmental and labor provisions be part of the actual agreement, not a side letter, because our experience in the past has been that when it is a side letter it feels good when you sign it but it really does not have the impact or the effect of it being part of the treaty, and that is something that worries us. Ms. Olson, could—

Ms. BIRDSALL. Could I just comment quickly on that?

Mr. ENGEL. Yes, sure.

Ms. BIRDSALL. I think the world has changed, and the politics have changed in the region and here, and therefore, it is more possible to imagine a side agreement working in two respects: The fact is that our allies with whom we would be signing these agreements in the region do support labor and environmental standards. Their

problem is enforcement, and their problem is the technical and financial resources to provide for effective implementation of those standards. That is already different than it was 10 or 15 years ago.

In addition, I think there is much more healthy pressure inside the United States from civil society and in Latin America from the labor movement and the Democratic civil society, the Democratic labor movement to enforce, to monitor, to report, to create information. So I think that the environment in general is different in that is worth, therefore not letting the ideal be the enemy of the good.

Mr. ENGEL. Ms. Olson, I take it you disagree. I would like to know why, and I would like to ask you about if environmental and labor standards were written into these free trade agreements, could we not also write something into these agreements so that it would not have a negative impact on the rural poor or do you take the position that any free trade agreement, regardless of how it is negotiated would have a negative impact on the rural poor?

Ms. OLSON. I very much believe in trade and free trade. I think that places where you see tariffs being lowered, where you are on a level playing field and tariffs are lowered on both sides, you can have a very positive impact. That is not the situation in Latin America. Between Latin America and the United States or between Mercosur countries.

A couple of things. I do definitely think that the Andean Trade Preferences Act needs to be extended. I think not extending it would have a very seriously negative consequence in countries where that is really not what we are looking for. I do believe the trade agreements can include provisions that allow for specific products. For example, agricultural products to be protected and over a period of time to have things done that mitigate the impact of unequal situations and allow for transitions to take place. So yes, I think those things could be negotiated in.

I think that as you look at Colombia right now, for example, Colombia is the most dangerous country in the world to be a trade unionist. I mean there are some really fundamental issues on the Colombia agreement right now that I think would have to be addressed very seriously for us to consider it okay. If you go back to the labor standards questions and how some of the previous trade agreements have been handled, we decided to implement a program to try and monitor labor rights issues with relation to CAFTA.

So we spent about 5 weeks in Central America and the Dominican Republic talking to people about the white books that were developed to help monitor the progress of labor improvements within the region. What we found was that almost nobody even knew that the white books existed. I mean it was really fairly disturbing. So the idea that huge changes were going to be made in relation to this fundamental document, which was why a number of people voted for the Central America Trade Agreement.

So I think that there are some very—yes, I definitely believe in trade—I think that there are some real fundamentals that need to be addressed, and the other thing is I think that a trade agreement and a development strategy are not the same thing, and I think that our approach to the region for quite awhile has been that trade will be you know the tide that lifts all boats, and what we

have seen is that this is not a level playing field, and that is not how it is playing out.

Mr. ENGEL. I thank you. Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman. Ms. Olson, do our trade preferences provide a solution to the environmental and labor problems?

Ms. OLSON. I am sorry? Do the—

Mr. BURTON. The trade preferences that we have that you say should be renewed; do they provide an answer to these labor and environmental problems you talked about?

Ms. OLSON. Not sufficiently, and in the long-term I think that there are other—

Mr. BURTON. I understand.

Ms. OLSON. Yes.

Mr. BURTON. The problem I have is you say we should extend the trade preferences but not go ahead with these free trade agreements, and yet the trade preferences do not take care of the environmental and labor problems that you are concerned about either but you think they should be extended. In my mind it is not jiving, and maybe you can explain that to me.

Ms. OLSON. Well, I think that if you are going to take a major step forward with a different kind of trade agreement that that should be the moment at which you address a number of issues. What we are talking about with the extension of the trade preferences act is something that has been going on for a long time, but I think what you are saying you have a point.

Mr. BURTON. Let me—

Ms. OLSON. I also think that if you are going to take the next step, you have got to look at these issues.

Mr. BURTON. Let me just say that Chairman Rangel, who is a good buddy of mine, good friend from the other side of the aisle, he has said that he would like to extend the trade preferences for 2 years. Being realistic, and I think my colleagues on the other side of the aisle probably would agree if we were talking, getting the trade preferences extended are going to be a lot easier than getting free trade agreements passed. We passed CAFTA by one vote, and so it is going to be tough.

So I hope that you will think long-term that in order to get free trade agreements we are going to have to approach them in a way that is consistent with what we are doing in getting trade preferences otherwise we are not going to get them done in my opinion, not as long as we have the people in opposition to it in control.

You said, Ms. Birdsall, I believe it was you that said that ethanol from Brazil—I think it was you—ethanol from Brazil has a high tariff, and that is one of the things that should be changed. I was not even aware of that. We have an import tariff on the gasoline or the ethanol that is coming in from Brazil?

Ms. BIRDSALL. Yes, we do, Congressman Burton. I think it is about 54 cents per some unit, and it is essentially protecting. It is sugar based ethanol which is much more environmentally clean.

Mr. BURTON. I would just state to my colleagues on the other side of the aisle I will be happy to work with you to get that thing removed. I mean we are depending on Hugo Chavez for 25 percent of our oil, our energy, and he is down there trying to destroy every-

thing we believe it practically, and here we have a country that is coming up with some alternative solutions to the fuel problem, and we are charging them an import tariff that is discouraging them from selling to the United States. It does not make any sense.

So you know you have got somebody on your side on this issue. I did not know that. That is terrible. What does that mean in a gallon of gas? Do you have any idea? I mean what would that translate to?

Ms. BIRDSALL. I am sorry. I do not know enough about the details.

Mr. BURTON. I wish you knew that. I would like for somebody to tell me.

Ms. BIRDSALL. But there are plenty of people who do. I think that probably one of the political reasons for this it is essentially import a tariff against the sugar, and we do protect sugar here which is I think a part of this also.

Mr. BURTON. Well, I understand the sugar.

Ms. BIRDSALL. When you fix one thing, you may have to fix other things.

Mr. BURTON. Well, I understand the sugar issue, but when we are talking about ethanol made from sugar or grass or whatever it happens to be, when we are talking about energy problems, we need to look at that in a separate way, and I just do not understand that. You talked about land redistribution, Ms. Olson. There are different kinds of land distribution.

There is a kind where the government just confiscates it and says, okay, we are going to give it like in Zimbabwe right now Mugabe is over there, and he is taking big farms, and he is saying I am going to chop it up into four or five little acres, and give it to the people, and it is causing tremendous chaos and an economic destruction process. The land reform you are talking about is where the government comes in and says to large land owners, we want to pay you for your land, and we want to make sure that the smaller entrepreneurs or farmers have an opportunity. Is that the way you are talking about it?

Ms. OLSON. Yes. I would say what I am talking about is land reform, and that for example in talking about Bolivia or any number of other countries in Latin America what you have are oftentimes situations in which land has been concentrated in the hands of very few people, often in pretty unjust systems over a long period of time, and some of that land is not even being used. So the Bolivian system, just as an example, is looking at land that is not being used in constructive ways, then allowing other people to use it, while compensating the landowners.

Mr. BURTON. Well, as long as there is a negotiated settlement and compensation, I think that is a pretty good idea because that will help get the rural people involved, and let me just say I am not talking about confiscating their land or nationalizing it. That is a totalitarian way to do it, and that is the kind of thing that leads to real problems.

You said 900,000 Mexicans lost their jobs in rural areas because of the CAFTA agreement. And this will be my last statement, Mr. Chairman. The one thing that I think is you are probably right in some of these rural areas where we are talking about getting a free

trade agreement like in Peru or in Panama or Colombia, the people in the rural areas, I think there is probably going to be some of them that are going to feel the disadvantage of it but you have to start someplace.

That is the thing, and if we do not start doing something that is going to create an entrepreneurial and free trade spirit and create jobs and investment, then you are never going to get to those people out in the rural areas anyhow because I will tell you Hugo Chavez in his approach he may give them some Cubans there to take care of some of their medical needs, and he may give them some educational tools but he is not going to give them jobs for a long period of time, especially if the price of oil starts to tank, because he will not be able to do it.

And so if we are going to have a long-term solution for these people, in my opinion, we are going to have to come up with some kind of a free trade agreement, and then work to make sure that it gets into the rural areas so those people do get jobs. Thank you, Mr. Chairman.

Ms. OLSON. Could I respond? I think that I would agree that trade and jobs, trade for people in the rural areas and jobs are central and important issues. What I would say though is what we are talking about right here today is poverty and inequality. Who are the poorest people in the region? How are poverty and inequality affecting political dynamics within this region? Where the poor people live is in rural areas. So if you are talking about developing trade agreements, you better be talking about how to develop them in ways that do not hurt the people who are at the bottom of the scale here that we are talking about as being the poor and unequal.

Mr. BURTON. Can I say one more thing?

Mr. ENGEL. Certainly.

Mr. BURTON. The free trade agreements should challenge those governments to make sure that the new plants and investment that is going in that they try to put those in areas where they will create jobs to help the people in the most poverty stricken areas.

Mr. ENGEL. Thank you. Ms. Sanchez.

Ms. SANCHEZ. Thank you, Mr. Chairman. I want to start out with a general question for all three of you. Would it be a fair statement to say that the income inequality in Central and Latin America is probably one of the biggest problems there right now? Ms. Birdsall?

Ms. BIRDSALL. Yes, that would be fair to say, and I think it is useful to think of it not only as an economic challenge but as a political challenge.

Ms. SANCHEZ. Okay. Ms. Olson?

Ms. BIRDSALL. And it is also important to think of it as what might be called a destructive kind of inequality. We have inequality in the U.S., some of which simply reflects that some people work harder or get luckier or invest smarter.

Ms. SANCHEZ. I understand.

Ms. BIRDSALL. That is why we accept the Bill Gates phenomenon.

Ms. SANCHEZ. I understand.

Ms. BIRDSALL. But in Latin America——

Ms. SANCHEZ. Generally speaking, a very simple yes or no question.

Ms. BIRDSALL. It is about unfairness.

Ms. SANCHEZ. Okay. Ms. Olson, would you agree that that is a correct statement?

Ms. OLSON. Yes.

Ms. SANCHEZ. Mr. Powell?

Mr. POWELL. Yes, and I would even say that even more than income inequality it is unequal access to opportunity.

Ms. SANCHEZ. I understand. Okay. Because we seem to be talking about a lot of different issues here that are interrelated. Ms. Olson, you said something that was particularly I think profound which is that trade agreement is not a development policy. I want you all to think about that for a minute because whenever we talk about development of countries, we seem to in Congress automatically jump to the assumption that free trade agreements are the panacea that are going to fix the land inequality, that are going to fix the income disparities, that are going to fix the access to capital disparities that exist, and I want to challenge you to all think about that because I think, Ms. Olson, you hit the nail on the head.

Free trade agreements are not a development policy, and I want to go back to something that Ms. Birdsall said. You were arguing in favor of passing the Peru and Colombian and Panamanian FTAs because if not it would be a rebuke to our allies in the region. I want you to know I traveled to Colombia last November to talk about the free trade agreement because it was being billed in Colombia as the panacea that was going to fix the economy there, that was going to help you know lift people out of poverty, and I want to ask you: Do you not think that cuts to development assistance that have been going on to that region in the world are a rebuke to our allies?

Why would it just be not passing the free trade agreements that would be a rebuke to our allies when we have been cutting development assistance to that region for a number of years? Do you not think that that is insulting if we are talking about trying to lift people out of poverty?

Ms. BIRDSALL. No. I would not compare them although I see the point of your excellent question, and you are probably more the lawyer than I. I am more the economist. My concern about the free trade agreements honestly is—and I will full disclosure, I am a Democrat—but my concern is that we have reached a point at which it will be a political setback for us because the governments of those countries which are concerned with poverty and inequality—President Uribe is not ignoring this problem.

They do represent governments that have been trying to build their democratic institutions. They are concerned that if these agreements in the end do not go through—and of course the timing now has become more sensitive—that that will reduce investment, domestic investment, in the next several years. So it does go back to jobs and—

Ms. SANCHEZ. Sure but—

Ms. BIRDSALL. I agree completely. It is not a development policy.

Ms. SANCHEZ. Okay. What is troubling to me though is again you know we are talking about development strategy and we are talk-

ing about free trade agreement, and I am going to keep going back to Ms. Olson's point. Trade agreements are not a development policy. If we are truly concerned about helping them close all of those gaps, create economic opportunity, admittedly the right kind of trade agreement could assist but fundamentally you know to cut development assistance is not helping the problem.

And I would further say—because you mentioned Plan Colombia and I am going to mention it too—you said that Plan Colombia has to be more than money to fight drugs, and I want to bring up a point that Ms. Olson touched on about Mexico and the rural sectors in Mexico and how they were devastated—particularly the corn industry—by cheap American subsidies.

Subsidized American corn that was responsible for lost jobs in the rural sector, which also, incidentally, contributed to the immigration problem because when they could not compete in the rural areas, they moved to the cities first looking for work. And when there was high unemployment in the cities and no work to be had, many of them came north.

That is what we have learned from NAFTA, and the fear when I was in Colombia and talking to civil society groups was that if the current incarnation of the Colombian free trade agreement passed and you have rural poor, the poorest in the country, the rural poor trying to compete with subsidized United States agricultural imports, that the temptation would be either migrate to the big cities in search of work or look to other crops that are more profitable, crops which we are trying to fight in many instances which are narcotics crops.

So it seems to me that if we are not smart about the type of trade agreements that we want to pass we are going to be exacerbating the problem, and we can throw money at Plan Colombia all we want, but if we are creating an incentive for people to grow illegal crops because they can actually earn a living off of that, it is just a self-perpetuating cycle that is destructive and leads to more violence and more destruction in Colombia in particular.

I also—and I am asking the Chair to indulge me because this is a topic I am very passionate and I care a lot about—but we talk about free trade agreements and there are winners and losers, and there are some people that pay more than others. Why are we asking the poor and the poorest of the poor to bear the transitional costs of these free trade agreements that are poorly drafted?

We just had in one of my other committees, Education and Labor Committee hearing, a hearing on trade adjustment assistance in the U.S., and let me tell you it is not all that grand. There often-times is insufficient training. Oftentimes there is gaps in health insurance coverage where we are asking people—who have just lost their jobs because they cannot compete with jobs that have been exported overseas to cheaper labor markets—to pay full health care premiums while they are waiting for the IRS to make a determination of whether or not they are eligible for this trade adjustment assistance, and on average people who go through these trade adjustment assistance programs end up with jobs where they earn 20 percent less than they did in the job that they lost to the globalized economy.

So in the U.S. it is a real problem, and in the United States we do not see the huge inequalities that we see in Latin and Central America in income, opportunity, access to capital, land, all of those things we just talked about. So I am very troubled that people can very cavalierly say well there are going to be transitional costs, and that is just the price of doing business, and that is just you know one of the you know short-term negative impacts of trade. To the poorest of the poor that is devastating. That is completely devastating.

So, Ms. Olson, I wanted to ask you do you think that enforceable labor standards as an integral part of any future trade agreements, including the ones that are one the table now, could possibly help improve the workers' standards of living in Latin and Central America?

Ms. OLSON. I mean this is a tough issue because I believe that there should be labor standards as a part of trade agreements. I also know that the reality, for example, in Central America where I have spent more time is that you can have a great labor law and if nobody enforces it, it does not do you any good. So at some point we have to start dealing with the real world in which these agreements get implemented, and in the real world there are a heck of a lot of labor laws in the region that are not implemented at all.

Ms. SANCHEZ. I will just close with this one last comment because I know I have taken a lot of time but—

Mr. ENGEL. And we have two votes.

Ms. SANCHEZ. Okay. When we were considering CAFTA in Congress, we had ambassadors from the countries that would be entering into the agreement come and lobby me in my office, and they told me about the wonderful labor laws they had in the constitution and on the labor books, and I said, well great. How is the enforcement? Because if there is no enforcement, those laws may as well not exist. And so I believe we have to build in some kind of mechanism for future trade agreements that has basic labor standards and some kind of mechanism to engage enforcement and to force compliance with those labor standards, and with that I will yield back, and I thank the Chairman.

Mr. ENGEL. Thank you. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman, and I appreciate your leadership and efforts in holding hearings affecting the Western Hemisphere. I do want to follow up on my good friend, the gentlelady from California, in talking about the poorest of the poor. I have been to Mexico, I have been to Central American, and I have been to South America several times. I have also done a quick reading on your statements, and I am very impressed with your depth and understanding of some of the economic ills and the problems affecting Latin America.

My first impression and something that I have been trying to pursue for the past several years, let us put a human face when we talk about who are the poorest of the poor, and correct me if I am wrong, they are indigenous Indians that are the poorest of the poor, and they have just been stomped upon. Call it what you may but they are really the ones taking a real hard—in terms of any economic opportunities, education, social, you call it, it is just not there, and it seems to me that if we are to really be serious about

our policy toward Latin America—let me just say that our policy has always been one of indifference.

It has always been a band-aid patch job, and just the indication when our President just decided to go to Latin America after 6 years or something, and to show that all of a sudden it is important in our national interest, and then to bypass certain nations because they were unfriendly to us. Talk about polarization and divisiveness in terms of how our relationship should be with those countries, and is it any wonder that you have leaders like Chavez?

And I was told he earnestly tried to establish a working relationship with our country but our leaders turned him down. Is it any question as to why he is such a strong leader in terms of trying to be helpful to the poorest of the poor?

Another significant development, Evo Morales, his election was due to the fact that these indigenous Indians in Bolivia where the ones that caused his election, just as was true with Alexander Toledo, the first Inca elected leader of Peru simply because again the rise of the political efforts on the part of these poor of the poorest if you want to call it.

I note with your statements there you had not mentioned anything in reference specifically to my concern is about serving the needs of the indigenous Indians, and I must say we have failed miserably in addressing this very serious issue. Now maybe you did not cite it specifically but I just wanted to share that with you.

My point of interest too, Mr. Chairman, all these illegal aliens that have worked in our country, they sent \$62 billion worth of remittances to the poorest families, and I could not think of a better economic policy that we would have done although illegally as we may classify them to be, \$62 billion. Over \$20 billion alone they go to Mexico to help. This is the most direct and the best aid that we have ever sent to Latin America. It did not even come through official channels.

If you go to any small village there in Latin America, they have got a Western Union station there to assist these people to meet their economic needs. I have a million questions, Mr. Chairman, but I know that time is up. We have got a vote. But I do want to express that for the record, and I thank you for giving me this opportunity to share these sentiments with you in our committee hearing. Thank you.

Mr. ENGEL. Thank you, Mr. Faleomavaega. Would anyone like to quickly comment on that? Ms. Birdsall.

Ms. BIRDSALL. I think it is a very important point, and I am glad the Congressman made it about the indigenous peoples in Latin America. There are programs including at the Inter-American Development Bank—where you will see from my bio I used to be in the 1990s—that focus specifically on this issue.

We just published a book from the Center for Global Development that indicates that more than 70 percent of all the girls in the world who are not going to school are members of minority or other excluded groups in their countries. In Latin America, most girls—boys also but not nearly so badly—in indigenous groups are not having the chance to go to school so I welcome this—

Mr. FALEOMAVAEGA. Could I ask, Mr. Birdsall, if we could get a copy of the book?

Ms. BIRDSALL. Absolutely. With pleasure.

Mr. FALEOMAVAEGA. I will pay you for it. I will be happy to.

Ms. BIRDSALL. We will send it to you for free.

Mr. FALEOMAVAEGA. Thank you very much.

Mr. ENGEL. And that does not break ethics rules, Mr. Faleomavaega. Before we adjourn, let me just ask one final question. Let me ask it to Mr. Powell, because we have not been asking him very many questions. In line with Mr. Faleomavaega's statement and part of what Ms. Sanchez has said and part of what everyone is saying, how have marginalized groups, including women, indigenous groups and Afro-descendants, benefitted from business programs like yours, and how can they best be targeted in the future?

Mr. POWELL. I think for extremely marginalized groups what they need are jobs, and we need to find a way to bring dignified, good, sustainable jobs to environments where it is very, very difficult for small business people to create those jobs.

As we have discussed earlier today, much of the development assistance in the past has gone to the elites, and there has been very little support for an entrepreneur who wants to create a small business in a rural community that can employ 100 people. This entrepreneur has very little access to finance. He basically has no access to finance, and he has no access right now to technical assistance, not just how to process agriculture, but how to add value to the business. How to think about what customer to target. How to differentiate products.

There is a huge lack of basic business and management education, and I believe you know as an American in a country where entrepreneurship and business acumen is something that we prize ourselves on, this is something that we should be exporting to entrepreneurs in very poor countries because they are the ones, in our view, who really hold the key to development. How can we empower them?

And I believe that aid and trade are not panaceas, and what we really need to do is figure out how to help these entrepreneurs compete in an incredibly competitive globalized world.

Mr. ENGEL. Well, thank you. I will let that be the last word but before I adjourn I want to just remind my colleagues that immediately after the two votes Assistant Secretary Tom Shannon will be privately briefing us in the anteroom. At five p.m. in this room to talk to us about the President's recent trip to Latin America. I thank the witnesses. I thank my colleagues, and the hearing is now adjourned.

[Whereupon, at 4:20 p.m., the subcommittee was adjourned.]

